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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, AUGUST 16, 2001

COMMONWEALTH OF VIRGINIA

At the relation of the

State Corporation Commission

CASE NO. PUE010306

Ex Parte: In the matter of
considering requirements
relating to wires charges
pursuant to the Virginia
Electric Utility
Restructuring Act

ORDER SETTING HEARING

The State Corporation Commission ("Commission") instituted this proceeding on June 13, 2001, pursuant to our obligations under § 56-583 of the Virginia Electric Utility Restructuring Act (§ 56-577 et seq. of the Code of Virginia)("the Act"), to establish wires charges for each incumbent electric utility to be effective upon the commencement of retail customer choice in the selection of electric suppliers. Our June 13, 2001, Order Establishing Proceeding, among other things, directed each utility initiating retail customer choice in its service territory in 2002 to file a wires charge proposal that, at a minimum, details the issues of timing and coordination of adjustments, market price determination, and rate design issues,

and directed the Commission Staff, and permitted interested parties, to file a response to the utilities' proposals.

Wires charge proposals were filed by Appalachian Power Company, d/b/a American Electric Power ("AEP-VA"), Virginia Electric and Power Company ("Dominion Virginia Power"), and the Virginia electric distribution cooperatives and the Virginia, Maryland & Delaware Association of Electric Cooperatives (collectively, "the Cooperatives"). The Potomac Edison Company, d/b/a Allegheny Power, also made a filing, although not a wires charge proposal per se. It stated its interest in the concepts that will be developed to determine market prices in this proceeding, but noted that it will have neither a fuel factor nor a wires charge in effect during the capped rate period of the Act.

Responses to the proposals were filed by the Staff, AES NewEnergy, Inc., The New Power Company, the Virginia Committee for Fair Utility Rates and the Old Dominion Committee for Fair Utility Rates, AEP-VA, and the Cooperatives.

In their filings, all parties and the Staff recognize that the determination of market price for generation is critical in establishing an appropriate wires charge. The Staff noted in its Report filed August 6, 2001, that AEP-VA and Dominion Virginia Power -- Virginia's two largest investor owned electric utilities -- possess very different views as to the

appropriateness of the use of forward/future-looking data for the purpose of market price determination. Staff generally agreed, subject to certain caveats, with the approach taken by Dominion Virginia Power in the company's July 17, 2001, proposal as it relates to market price determination. The major caveat involved the divergent opinions held by AEP-VA and Dominion Virginia Power as to the appropriateness of the use of EnronOnline¹ forward data for the purpose of determining market prices pursuant to § 56-583.

In its proposal filed July 17, 2001, AEP-VA asserted that the use of futures prices at this time is "premature and inappropriate." AEP-VA reiterated its view in comments it submitted on August 6, 2001.

The Commission is of the opinion that the divergent views held by Virginia's two largest investor-owned utilities as to the appropriateness of the use of forward looking EnronOnline price data for market price determination should be reconciled, if at all possible. It is a key concern that must be addressed before the Commission can approve an appropriate method for market price determination required to implement retail choice.

According to the Staff Report:

AEP-VA and DVP disagree on the appropriateness of the use of forward looking data

¹ EnronOnline is a wholesale electric energy trading exchange available on the Internet.

for market price determination to effect retail access. AEP-VA claims futures prices are "currently too thinly traded to provide reliable indications of the cash price the Company will actually face at the time of the sale of power." DVP, by proposing on-line exchange traded forward prices and pointing to what it characterizes as reasonably close bid-offer spreads, asserts that the Enron data represents prices in a market that is sufficiently liquid and appropriate for use in this task.

Staff recommended that the Commission require both AEP-VA and Dominion Virginia Power to speak further to the bedrock issue of the appropriateness of the use of EnronOnline forward data for use in market price determination. We also note that Staff's inability to gain easy access to the EnronOnline data raise doubts about whether markets for electric power are developing in a manner that promotes price discovery and price transparency.

The Commission will convene a hearing to receive evidence on the issue of market price determination. Since both AEP-VA and Dominion Virginia Power possess wholesale trading organizations within their respective corporate families, we will require that each of these parties file testimony sponsored by at least one fully-qualified witness particularly knowledgeable in these issues. That testimony should address the three recommendations listed in Section VI of Staff's August 6, 2001 Report as set forth below:

- 1) Dominion Virginia Power's proposed method should be seriously considered for adoption for as large a geographic portion of the Commonwealth as possible, subject to the eventual RTO structure applicable to Virginia and the caveats expressed in Section V of the Staff Report relating to transmission cost adjustments and base data collection time periods.
- 2) The Commission should further explore the bedrock issue regarding the appropriateness of the use of EnronOnline data for the purpose of projecting market prices for generation pursuant to § 56-583.
- 3) Should a market price determination method based on historical data be adopted for use in the AEP-VA service territory for 2002, such a method should be that method approved by the Commission for the AEP-VA pilot in Case No. PUE980814.

In addition, Staff and other parties who desire to offer evidence at the hearing in this matter shall file either testimony or additional comments, provided that any such comments are sponsored by a witness who will adopt such comments and will be available for examination at the hearing.

Accordingly, IT IS ORDERED THAT:

(1) A hearing for the purpose of receiving evidence relevant to the determination of market prices for generation, pursuant to § 56-583 of the Code of Virginia, is scheduled for Wednesday, September 12, 2001, at 10:00 a.m. in the Commission's second floor courtroom located in the Tyler Building, 1300 East Main Street, Richmond, Virginia.

(2) On or before September 5, 2001, AEP-VA and Dominion Virginia Power shall file direct testimony by appropriate

witnesses as specified in this Order on the issue of determining market prices for generation for the establishment of wires charges, and addressing the three recommendations listed in Section VI of Staff's August 6, 2001 Report.

(3) On or before September 5, 2001, the Staff and other parties to this proceeding may file testimony or additional comments as specified in this Order.

(4) Testimony or additional comments in this matter shall be filed with the Clerk of the Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218, in an original and fifteen (15) copies, referencing Case No. PUE010306, and one copy shall be served on each party to this proceeding.

(5) This matter is continued for further orders of the Commission.